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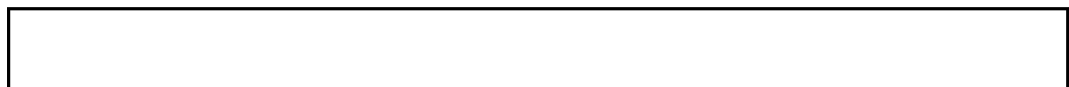
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LIBYA: President Qadhafi apparently has decided to remain in office, at least until unity with Egypt is proclaimed.

During a somewhat subdued speech yesterday to enthusiastic crowds, Qadhafi stated that he would reassume leadership of Libya for the sake of all those calling for his return. According to early reporting, however, he indicated that the direction of the proposed merger would ultimately determine his future. The Libyan leader told his followers to understand that he, like other men, is subject to human frailties and that "one gets tired, disgusted, and bored with politics--particularly Arab policies." He catalogued a long list of differences with his Egyptian partners over such issues as the cultural revolution and plans for the battle against Israel, but the tone of his remarks was neither antagonistic nor condemnatory. Nevertheless, he expressed little willingness to compromise on his concept of complete union or on his commitment to a popular, Islamic revolution. By linking his leadership to the proposed merger, Qadhafi apparently still hopes to gain some concessions from Cairo. President Sadat, however, apparently does not intend to bow to Libyan pressures. [REDACTED]

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EGYPT: Speaking on Revolution Day yesterday, President Sadat had little to offer the Egyptian people beyond continued misgivings about union with Libya, distant but still amicable relations with Moscow, and strong attacks on US Middle East policy. He did not, as he has on occasion in the past, set new deadlines for moving toward a Middle East settlement.

Sadat sees no merit in a full and immediate merger with Libya. In an obvious reference to the "march on Cairo," which has now ground to a halt, he noted that emotions are not a basis for unity and that the important element in unity is its substance rather than its form. Substance is important, he said, "even if it does not take on the necessary constitutional framework."

Sadat actually dealt only briefly with the union question, devoting most of his attention to Cairo's relations with the Soviets and the US. Confirming a trend which has been apparent in the Cairo press in recent weeks, Sadat took the position on the USSR that, although differences exist, Egyptians must understand that these are differences between friends. He criticized the level of Soviet military assistance, but accepted this Soviet failing as "God's will" and noted that Egypt has been reassured of continuing Soviet political support.

Sadat dealt harshly with the US actions at the UN Middle East debate, stating that Egypt will not waver in the face of US ultimatums about a veto. He charged that US policy on a Middle East settlement had changed over the years and accused the US of working to preserve the cease-fire in the interests of furthering Israeli absorption of the occupied territories. Sadat rejected the US proposal for "proximity talks" on an interim settlement; indeed, he rejected the idea of negotiating at all with Israel.

(continued)

These remarks are fairly standard fare and reflect Sadat's continued frustration at Cairo's inability to induce movement toward a settlement. Despite his frustration, Sadat did not, as he has in the past, highlight calls for military action against Israel. Several months ago, for example, he used the threat of renewed hostilities in an attempt to force the US to bring greater pressure on Israel. Protesting that he was not postponing the battle, Sadat nonetheless took a long-range view. He emphasized that Cairo would have to reassess the means by which Egypt can regain its territory. This reassessment is to be prepared over the next two months and, Sadat said, will determine Egypt's policy for the next two or three decades. [REDACTED]

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AFGHANISTAN: A week after a well-executed coup, President Daud appears to be in full control of the country.

A new government has not yet been formed, but Daud is serving as president, prime minister, foreign minister, and defense minister. Most military units have been withdrawn from Kabul, there is no indication of significant opposition in the provinces, and reports that the King would attempt to return home seem to be baseless.

Daud's foreign policy statements have been moderate and he has won recognition from a number of states, including Pakistan and Iran, both of which nevertheless remain deeply suspicious of his intentions. [REDACTED]

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AUSTRALIA: Canberra has reduced import tariffs 25 percent in an effort to slow inflation. During the second quarter of 1973 prices rose at an annual rate of 13 percent, the highest rate in 21 years. While the tariff reduction will make foreign goods more competitive in the Australian market, it is not expected to have a major impact on imports from the US, many of which already enter Australia duty free or with nominal tariffs.

US exports to Australia reached \$470 million during the first five months of this year, 35 percent above the same period last year. The increase was due in part to currency realignments over the past year in which the Australian dollar appreciated 19 percent against the US dollar.

[REDACTED]

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FOR THE RECORD*

Haiti: Yesterday's fire in the national palace armory destroyed a quantity of arms and ammunition. President Duvalier and his family escaped unharmed from the early morning blaze. Except for the crowd of curious spectators who gathered around the palace grounds to view the fire, Port-au-Prince has remained calm and normal. [REDACTED]

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Japan-USSR: The president of Japan's Export-Import Bank will visit Moscow in mid-August to discuss credit terms for the Yakutsk natural gas exploration project. The two sides were unable to reach an agreement during the negotiations just concluded in Tokyo. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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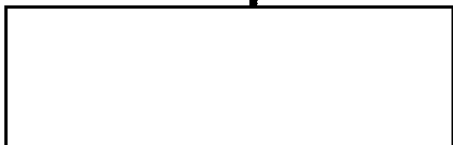
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